WestBond Enterprises Corporation

Quarterly Report
June 30, 2019

Management Discussion and Analysis

Dated August 26, 2019 to Accompany the Interim Consolidated Financial Statements for the Three Month Period Ended June 30, 2019

Caution Regarding Forward Looking Statements – ***This discussion includes statements about our expectations for the future. We believe that our expectations are reasonable; however, actual outcomes may differ materially from our expectations due to changes in operating performance, availability of and prices for raw materials, availability of trained labour, foreign currency exchange rate fluctuations, unexpected competition, and other technical, market and economic factors.***

Description of Our Business

We, WestBond Enterprises Corporation or the "Company," are a paper manufacturer and converter that supplies disposable paper products to many market segments. A full description of our business and products is contained in the Management Discussion and Analysis included in our 2019 Annual Report. A pdf version of the 2019 Annual Report may be downloaded from our web site at www.westbond.ca or from the SEDAR web site at www.sedar.com. For a printed copy, please contact the Company. Additional information on the Company is also available on our web site and on the SEDAR web-site.

Discussion of Operations and Financial Condition

You should refer to our interim consolidated financial statements for the three month period ended June 30, 2019 and our consolidated financial statements for the year ended March 31, 2019 while you read this discussion. Those financial statements provide significant material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information. You should also refer to the Management Discussion and Analysis that was included in our 2019 Annual Report. Information included in that discussion is only up-dated in this discussion. Information that has not changed materially since June 20, 2019, the date of the Management Discussion and Analysis in the 2019 Annual Report, is not repeated here.

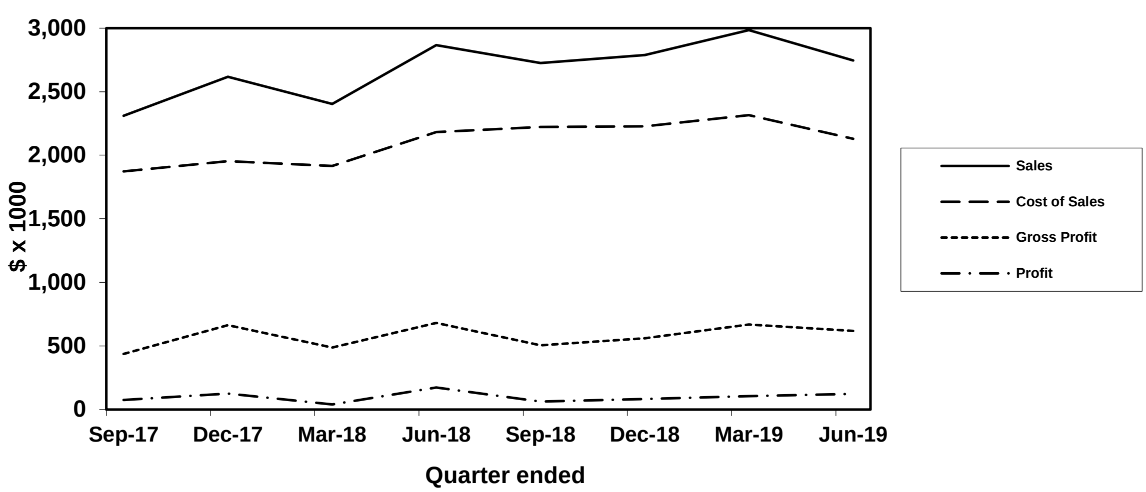
Sales were $2,746,044 for the three months ended June 30, 2019, which is 4.1% lower than for the three months ended June 30, 2018 and 8.0% lower than for the three months ended March 31, 2019. We realized a profit of $124,303 ($0.004 per share) for the three months ended June 30, 2019, compared to a profit of $172,905 ($0.005 per share) for the same period last year. The decrease in both sales and profit was due to a temporary severe shortage of paper.

The table and graph on the next page show the trends over the past eight quarters.

Summary of Quarterly Results

The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards.

	Quarters ended							
Cdn$ x 1,000	**Jun 30 2019**	**Mar 31 2019**	**Dec 31 2018**	**Sep 30 2018**	**Jun 30 2018**	**Mar 31 2018**	**Dec 31 2017**	**Sep 30 2017**
Sales	2,746	2,985	2,788	2,726	2,865	2,403	2,617	2,310
Cost of sales	2,128	2,317	2,228	2,223	2,183	1,916	1,954	1,873
Gross profit	618	668	560	503	682	487	663	437
Selling and distribution expenses	216	220	224	207	245	200	232	207
General and administrative expenses	171	253	168	170	172	174	174	146
Operating profit	231	195	168	126	265	113	257	84
Other expenses (income)	59	43	55	39	30	51	50	(17)
Profit before tax	172	152	113	87	235	62	207	101
Income tax expense	48	48	31	26	62	21	82	27
Profit	124	104	82	61	173	41	125	74
Earnings per share, basic and diluted - Cdn$	0.004	0.003	0.002	0.002	0.005	0.001	0.004	0.002
Dividends paid per share - Cdn$	0.0025	0.0025	0.0025	0.0025	0.0000	0.000	0.0000	0.0000
Sales - % change over previous quarter	-8.0	7.1	2.3	-4.9	19.2	-8.2	13.3	-7.6
Costs, expenses and net income - % of Sales								
Cost of sales	77.5	77.6	79.9	81.5	76.2	79.7	74.7	81.1
Selling and distribution expenses	7.9	7.4	8.1	7.6	8.5	8.3	8.9	9.0
General and administrative expenses	6.2	8.5	6.0	6.3	6.0	7.2	6.7	6.3
Other expenses (income)	2.1	1.4	2.0	1.4	1.1	2.2	1.9	-0.8
Income tax expense	1.8	1.6	1.1	1.0	2.2	0.9	3.1	1.2
Profit	4.5	3.5	2.9	2.2	6.0	1.7	4.7	3.2



Sales

Sales for the three months ended June 30, 2019 were 4.1% lower than for the same period last year and 8.0% lower than the previous quarter, ended March 31, 2019. The decrease in personal hygiene product sales is due to a shortage of paper supply in the North American market creating a back-log of over $300,000 in unfilled orders at June 30, 2019. We have since sourced more reliable paper suppliers overseas and have now caught up with the back-log. The increase in clinical products is due to the addition of a new customer. The decrease in sales of long-term care products is due to the loss of a significant customer. The increase in non-clinical air laid products is due to rapidly expanding sales volumes.

Sales	Three months ended June 30		Change over last year
Product Line	2019 $	2018 $	
Personal hygiene	969,834	1,085,409	-10.6%
Clinical	453,102	428,491	5.7%
Long-term care	454,207	699,945	-35.1%
Non-clinical air laid	856,473	642,600	33.2%
Other	12,428	8,295	49.8%
	2,746,044	2,864,740	-4.1 %

Cost of Sales

Materials costs, as a percentage of sales, were lower and production labour was higher in the three months ended June 30, 2019 than in 2018 due to the product mix. Non-clinical air laid has a lower materials component and higher labour component than the other products. Variable overhead is higher in 2019 than in 2018 from increased electricity and gas consumption to build up the air laid inventories in advance of a planned shut-down in July. Fixed overhead is lower in 2019 than in 2018 because of the new accounting policy for leases. The factory rent has been reduced and replaced with depreciation of a right-of-use asset.

Cost of Sales	Three months ended June 30	
	2019 % of sales	2018 % of sales
Materials	48.5%	50.9%
Production labour	9.6%	8.0%
Factory overhead labour	4.2%	3.8%
Variable overhead	5.1%	3.2%
Fixed overhead	1.7%	4.5%
Depreciation of plant equipment	6.1%	5.8%
Depreciation of right-of-use assets	2.3%	-
Gross Profit	22.5%	23.8%

Selling and Distribution Expenses

Selling and distribution expenses during the three months ended June 30, 2019 were 7.9% of sales, compared to 8.6% for the three months ended June 30, 2018. The decrease is due to the product mix – non-clinical air laid products, particularly parent rolls, have a much lower shipping cost to sales value ratio than the other products.

General and Administrative Expenses

Administrative and office expenses were lower in the three months ended June 30, 2019 than in 2018 from the reduction in office rent expense under the new lease accounting policy of $6,164 and reduced automotive allowance of $3,503. Depreciation of right-of-use assets under the new lease accounting policy offset these reductions by $4,696. Salary and other employee benefits increased due to the addition of staff and to higher pay rates for salaries and employee benefits.

During the three months ended June 30, 2019 the company incurred total short-term employee benefits of $96,139 (2018 – $102,612) to its key management personnel, comprising the directors and officers of the company, and incurred $2,340 (2018 – $2,467) of professional fees in the normal course of operations paid to DuMoulin Black LLP, a law firm in which J. Douglas Seppala, a director of the company, is a partner. The professional fees are for legal services provided to the Company at rates normally charged to arm's length parties.

Other Income and Expenses

Fluctuations in the US dollar exchange rate resulted in a $7,821 gain in the three months ended June 30, 2019, compared with a $1,002 loss in the same period last year. Interest expense on bank loans is lower in 2019 than 2018 because of lower loan balances. Interest expense on lease liabilities under the new accounting policy was $31,904 for the three months ended June 30, 2019. We recognized an unrealized loss of $4,574 to reflect the market value fluctuation of our interest rate swap during the three months ended June 30, 2019

Liquidity, Financial Position and Capital Resources

Our operating cash flows were $476,261 during the three months ended June 30, 2019, an average of $158,754 per month, compared to an average of $121,838 per month during the year ended March 31, 2019, before accounting for fluctuations in non-cash working capital. We had working capital of $846,843 at June 30, 2019, compared to $913,361 at April 1, 2019. The change is due to the improved operating cash flows, offset by dividends, term loan payments and equipment purchases.

We declared dividends of $0.0025 per share payable on June 20, 2019 to shareholders of record on June 5, 2019 and quarterly thereafter. The next quarterly dividend of $0.0025 per share will be paid on September 20, 2019 to shareholders of record on September 5, 2019. We plan to re-invest the rest of our surplus cash flow in new equipment to continue to expand our product lines and improve efficiency and to pay off bank debt.

We have a revolving bank loan facility of $1,500,000. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of $1,500,000 are not included in the calculation. Loans outstanding under the facility bear interest at bank prime plus 0.5%. Substantially all of our assets are pledged as collateral for the revolving bank loan facility. No loans were outstanding at June 30, 2019, however irrevocable letters of credit totalling US$60,985 were outstanding at June 30, 2019 against the loan facility.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as $300,000 and accounts payable by an additional $300,000. We purchase our pulp and paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations.

We also have a term loan credit facility which was used for the purchase of our binder bonded air laid paper making machine. Repayment of the loan is in monthly instalments of $59,524 with a final payment of the balance of principal on August 22, 2023 (which was extended from August 22, 2020 subsequent to June 30, 2019). A specific charge against the equipment purchased with the loan proceeds and a fixed and floating charge on substantially all of the company's assets are pledged as collateral.

We have entered into interest rate swaps which convert our variable rate term loan interest to an effective 3.88% fixed rate until November 2022. If long-term market expectations are for interest rates on bankers acceptances to increase, we will reflect an unrealized gain on the interest rate swaps. If the expectations are for rates to decrease, we will reflect an unrealized loss. A 1% rise in the interest rate could create an unrealized gain of approximately $55,000. A 1% decrease could create an unrealized loss of approximately $100,000. As the loan is repaid and the remaining term of the loan decreases, the exposure is reduced. If the loan is repaid on schedule until November 2022, any unrealized gain or loss will be eliminated. At June 30, 2019 we had an unrealized loss of $39,054 on the interest rate swaps.

We intend to spend around $300,000 for production equipment during the next year, which we will finance from operating cash flows.

New Accounting Policies

The International Accounting Standards Board adopted IFRS 16, Leases in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

We adopted this standard as of our opening statement of financial position for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result we recognized a right-of-use asset and a lease liability for our lease of premises and made the adjustments described in note 3 of the financial statements. The lease liability recorded is the present value of the remaining lease payments discounted using our incremental borrowing rate at April 1, 2019 of 4.45%.

We elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value as the amounts are insignificant. We elected the option to apply this standard retrospectively without restatement of prior periods. The calculations to re-state the prior periods back to the inception date of the lease would be more onerous than useful.

Share Capital

The Company has only one class of share capital, common shares without par value. The Company also has a stock option plan.

	August 26, 2019
Authorized common shares without par value	Unlimited
Issued common shares	33,815,800
Shares issuable on exercise of outstanding stock options	1,700,000
Shares available for future stock option grants	1,681,580

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company.

Other Information

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.westbond.ca.

WestBond Enterprises Corporation

Notice to Reader

The accompanying interim consolidated financial statements of WestBond Enterprises Corporation for the three month periods ended June 30, 2019 and 2018 have been prepared by and are the responsibility of the company's management. They are unaudited and have not been reviewed by independent auditors.

WestBond Enterprises Corporation
Consolidated Statements of Financial Position
Canadian Dollars
(Unaudited)

	Notes	June 30 2019 $	April 1 2019 $	March 31 2019 $
ASSETS			Note 3	
Non-Current Assets				
Plant and equipment		7,816,206	7,818,316	7,818,316
Right-of-use assets	3	2,865,726	2,934,789	-
Lease deposits	3	-	-	18,012
Deferred tax asset		5,850	9,566	9,566
		10,687,782	10,762,671	7,845,894
Current Assets				
Inventory		1,441,557	1,244,081	1,244,081
Trade and other receivables		1,285,830	1,313,774	1,313,774
Prepaid expenses		31,453	57,604	57,604
Cash and cash equivalents		342,980	474,030	474,030
		3,101,820	3,089,489	3,089,489
Total Assets		13,789,602	13,852,160	10,935,383
EQUITY AND LIABILITIES				
Equity				
Common shares issued and outstanding		3,903,940	3,903,940	3,903,940
Stock options		81,770	81,770	81,770
Contributed surplus		294,089	294,089	294,089
Retained earnings	3, 5	1,253,623	1,213,860	1,071,338
Equity attributable to common shareholders		5,533,422	5,493,659	5,351,137
Liabilities				
Non-Current Liabilities				
Term bank loans		2,261,896	2,440,468	2,440,468
Unrealized loss on interest rate swaps		39,054	34,480	34,480
Lease liability	3	2,671,106	2,722,750	-
Deferred operating lease liability	3	-	-	195,235
Deferred tax liability	3	1,029,147	984,675	931,962
		6,001,203	6,182,373	3,602,145
Current Liabilities				
Term bank loans		714,288	714,288	714,288
Current portion of lease liability	3	192,345	194,027	-
Trade and other payables		1,348,344	1,267,813	1,267,813
		2,254,977	2,176,128	1,982,101
Total Liabilities		8,256,180	8,358,501	5,584,246
Total Equity and Liabilities		13,789,602	13,852,160	10,935,383
Commitments	6			

WestBond Enterprises Corporation
Consolidated Statements of Comprehensive Income
Canadian Dollars
(Unaudited)

	Notes	Three months ended June 30	
		2019	2018
		$	$
Sales	7	2,746,044	2,864,740
Cost of sales	8	2,127,467	2,183,168
Gross Profit		618,577	681,572
Selling and distribution expenses	9	216,318	244,978
General and administrative expenses	10	171,315	171,514
Operating Profit		230,944	265,080
Foreign exchange (gain) loss		(7,821)	1,002
Interest expense on bank loans		29,796	36,699
Interest expense on lease liabilities		31,904	-
Unrealized loss (gain) on interest rate swaps		4,574	(7,313)
Profit Before Tax		172,491	234,692
Income tax expense		48,188	61,787
Profit and Comprehensive Income		124,303	172,905
Weighted average shares outstanding		33,692,923	33,665,800
Earnings per share, basic and fully diluted		0.004	0.005

The accompanying notes are an integral part of these interim consolidated financial statements.

WestBond Enterprises Corporation
Consolidated Statements of Changes in Equity
Canadian Dollars
(Unaudited)

	Common Shares	Stock Options	Contributed Surplus	Retained Earnings	Total
	$	$	$	$	$
Balance as at March 31, 2018	3,883,225	88,985	294,089	902,943	5,169,242
Profit for the period	-	-	-	172,905	172,905
Balance as at June 30, 2018	3,883,225	88,985	294,089	1,075,848	5,342,147
Balance as at March 31, 2019	3,903,940	81,770	294,089	1,071,338	5,351,137
Adjustment of opening balance on adoption of IFRS 16 (note 3)	-	-	-	142,522	142,522
Balance as at April 1, 2019	3,903,940	81,770	294,089	1,213,860	11,008,711
Dividends paid	-	-	-	(84,540)	(84,540)
Profit for the period	-	-	-	124,303	124,303
Balance as at June 30, 2019	3,903,940	81,770	294,089	1,253,623	11,048,474

The accompanying notes are an integral part of these interim consolidated financial statements.

WestBond Enterprises Corporation
Consolidated Statements of Cash Flows
Canadian Dollars
(Unaudited)

	Notes	Three months ended June 30 2019	2018
		$	$
Operating Activities			
Profit		124,303	172,905
Adjustments to reconcile profit to cash			
flows from operating activities			-
- depreciation of plant and office equipment		168,433	168,389
- depreciation of right-of-use assets		69,063	-
- deferred operating lease liability		-	7,886
- unrealized loss (gain) on interest rate swaps		4,574	(7,313)
- interest expense on bank loans		29,796	36,699
- interest expense on lease liabilities		31,904	-
- income tax expense		48,188	61,787
Cash flows from operating activities before changes in non-cash working capital		476,261	440,353
(Increase) decrease in			
- inventory		(197,476)	53,818
- trade and other receivables		27,944	(202,945)
- prepaid expenses		26,151	16,304
Increase in			
- trade and other payables		81,539	225,848
Net Cash Flow from Operating Activities		414,419	533,378
Investing Activities			
Purchase of plant and equipment	11	(177,839)	(97,610)
Financing Activities			
Dividends paid		(84,540)	-
Repayment of term loans		(178,572)	(178,572)
Interest paid on bank loans		(29,754)	(42,570)
Interest portion of lease payments		(21,438)	-
Principal portion of lease payments		(53,326)	-
Net Cash Flow from Financing Activities		(367,630)	(221,142)
Net (Decrease) Increase in Cash and Cash Equivalents		(131,050)	214,626
Cash and Cash Equivalents at the Beginning of the Period		474,030	402,293
Cash and Cash Equivalents at the End of the Period		342,980	616,919

The accompanying notes are an integral part of these interim consolidated financial statements.

1. GENERAL INFORMATION

WestBond Enterprises Corporation and its wholly owned subsidiary, WestBond Industries Inc., (together, the company) are a paper manufacturer and converter that supplies disposable paper products for medical, hygienic and industrial uses. The company's manufacturing facilities are in Canada and its sales are primarily to Canada and the United States of America. The company is incorporated in British Columbia, Canada, and has its principal place of business at 101 – 7403 Progress Way, Delta, British Columbia.

The interim consolidated financial statements of the company for the three month period ended June 30, 2019 were approved and authorized for issue by resolution of the directors on August 26, 2019.

2. BASIS OF PREPARATION AND INTERIM PERIOD REPORTING

The interim consolidated financial statements of the company have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting,*("IAS 34"). The policies applied in these interim consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending March 31, 2020 could result in restatement of these interim consolidated financial statements. The interim consolidated financial statements have been prepared under the historical cost convention.

The same accounting policies and methods of computation were followed in the preparation of these interim consolidated financial statements as in the consolidated financial statements for the year ended March 31, 2019, except for the adoption of *IFRS 16, Leases,* on April 1, 2019.

The disclosure contained in these interim consolidated financial statements is condensed and includes only selected explanatory notes and does not duplicate or repeat disclosure reported in the consolidated financial statements for the year ended March 31, 2019 that has not changed materially since their date of issue. Accordingly, these interim consolidated financial statements should only be read in conjunction with the consolidated financial statements of the company for the year ended March 31, 2019.

3. NEW ACCOUNTING POLICY

The International Accounting Standards Board adopted IFRS 16, Leases in January 2016, effective for financial years beginning on or after January 1, 2019. The new standard requires a lessee to recognize a "right-of-use" asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee recognizes depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion. Assets and liabilities are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

The company adopted this standard as of its opening statement of financial position for the year ending March 31, 2020 on a retrospective basis without restatement of prior periods. As a result it recognized a right-of-use asset and a lease liability for its lease of premises and made the adjustments described in the following table. The lease liability recorded is the present value of the remaining lease payments discounted using the company's incremental borrowing rate at April 1, 2019 of 4.45%. The company elected not to apply the standard to short-term leases and leases for which the underlying asset is of low value.

(Canadian Dollars)

3. NEW ACCOUNTING POLICY (continued)

	Non-Current Assets	Equity	Non-Current Liabilities	Current Liabilities
	$	$	$	$
Ending Statement of Financial Position at March 31, 2019	7,845,894	5,351,137	3,602,145	1,982,101
Reversal of deferred lease liability	-	195,235	(195,235)	-
Related increase in deferred tax liability	-	(52,713)	52,713	-
Recognition of right-of-use asset and related lease liability	2,934,789	-	2,740,762	194,027
Application of lease deposits to lease liability	(18,012)	-	(18,012)	-
Opening Statement of Financial Position at April 1, 2019	10,762,671	5,493,659	6,182,373	2,176,128

During the three months ended June 30, 2019 the company paid $688 in lease payments for which the underlying assets are of low value.

4. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2019 the company incurred total compensation, comprising short-term employee benefits, of $96,139 (2018 – $102,612), to the directors and officers of the company and incurred $2,340 (2018 – $2,467) of legal fees in the normal course of operations with a firm in which a director of the company is a partner.

5. SUBSEQUENT EVENTS

Subsequent to June 30, 2019:

- The final payment of the term bank loan was extended to August 22, 2023 and
- the company declared a dividend of $0.0025 per share payable on September 20, 2019 to shareholders of record on September 5, 2019.

6. COMMITMENTS

The company has made commitments to purchase machinery in the amount of US$60,985. The commitments are supported by irrevocable letters of credit issued under the revolving bank loan facility.

WESTBOND ENTERPRISES CORPORATION

Notes to the Interim Consolidated Financial Statements

June 30, 2019 and 2018
Canadian Dollars
(unaudited)

	Three months ended June 30	
	2019	**2018**
	$	**$**
7. SALES		
Personal hygiene products	969,834	1,085,409
Clinical products	453,102	428,491
Long-term care products	454,207	699,945
Non-clinical air laid products	856,473	642,600
Other products	12,428	8,295
	2,746,044	2,864,740
8. COST OF SALES		
Materials	1,331,147	1,458,931
Production labour	263,602	230,164
Factory overhead labour	116,807	109,564
Variable overhead	139,185	92,135
Fixed overhead	45,838	127,095
Depreciation of plant equipment	166,521	165,279
Depreciation of right-of-use assets	64,367	-
	2,127,467	2,183,168
9. SELLING AND DISTRIBUTION EXPENSES		
Shipping	187,630	211,416
Wages, commissions and other employee benefits	26,845	29,584
Other	1,843	3,978
	216,318	244,978
10. GENERAL AND ADMINISTRATIVE EXPENSES		
Administration and office	27,307	37,729
Corporate promotion	1,035	1,062
Depreciation of right-of-use assets	4,696	-
Professional fees	15,000	14,811
Salaries and other employee benefits	123,277	117,912
	171,315	171,514
11. NON-CASH INVESTING ACTIVITIES		
(Decrease) increase in accounts payable related to purchase of plant and equipment	(11,516)	22,823